

West Virginia Parkways Authority
(A Component Unit of the State of West Virginia)

Audited Financial Statements with
Other Financial Information

Years Ended June 30, 2015 and 2014

WEST VIRGINIA PARKWAYS AUTHORITY
(A Component Unit of the State of West Virginia)

Audited Financial Statements
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Years Ended June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
West Virginia Parkways Authority
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of West Virginia Parkways Authority (the Authority), a component unit of the State of West Virginia, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 3 to the financial statements, in 2015, the Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11, the schedule of proportionate share of the net pension liability, and schedule of pension contributions on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other financial information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other financial information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2015 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Suttle & Stalaker, PLLC".

Charleston, West Virginia
October 30, 2015

WEST VIRGINIA PARKWAYS AUTHORITY
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Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2015 and 2014

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The management of the West Virginia Parkways Authority (hereinafter referred to as the Authority) offers this narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2015 which should be read in conjunction with the Authority's basic financial statements.

FINANCIAL HIGHLIGHTS

- The total number of transactions on the West Virginia Turnpike during fiscal year 2015 increased 3.2% from fiscal year 2014. The increase in transactions resulted in an increase in toll revenue of approximately \$3.8 million or 4.5%.
- In conjunction with the adoption of the new toll rate schedule in August 2009, the Authority implemented a ten-year program to address the approximately \$335 million backlog of essential deferred maintenance and capital needs identified with the Authority's consulting engineers. In addition to the increased activity of the Authority's own maintenance staff, the Authority has utilized over \$182.6 million of capital towards roadway reconstruction, rehabilitation and repair and other capital expenditures since the rate increase. At June 30, 2015, the Authority had contractual commitments totaling approximately \$29.7 million for various Turnpike System improvement projects.
- Excluding depreciation, operating expenses increased \$2.3 million or 5.0% from 2014. Increases in expenditures related to salt, damage claims and recoveries, guardrail replacement, and other maintenance expenses.

Basic Financial Statements

The Authority accounts for its operations and financial transactions in a manner similar to that used by private business enterprises: the accrual basis of accounting. In these statements, revenue is recognized in the period in which it is earned, and an expense is recognized in the period in which it is incurred, regardless of the timing of its related cash flow.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. For each fiscal year, the Authority's basic financial statements are comprised of the following:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements

The Statements of Net Position present information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Increases or decreases in net position, over time, may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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The Statements of Revenues, Expenses and Changes in Net Position present revenue and expense information and how the Authority's net position changed during the fiscal year as a result of these transactions.

The Statements of Cash Flows present sources and uses of cash for the fiscal year, displayed in the following categories: cash flows from operating activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The Notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. They are an integral part of the basic financial statements.

FINANCIAL ANALYSIS

Operating Revenue

Toll revenues represent the major source of funding for the Authority. Passenger car traffic volume increased 3.1% and large commercial traffic volume increased by 3.5% during 2015. Passenger car toll revenues increased 4.2% and large commercial toll revenues increased by 3.7%. Toll revenues increased 4.5% in the fiscal year.

CHANGES IN NET POSITION INFORMATION

(in Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change '15-'14</u>
Revenues:				
Operating revenues:				
Toll revenues	\$ 88,697	\$ 84,907	\$ 83,519	4.5%
Other revenues	6,797	6,749	6,944	0.7%
Nonoperating revenues:				
Net investment revenue	<u>338</u>	<u>302</u>	<u>122</u>	11.9%
Total revenues	<u>95,832</u>	<u>91,958</u>	<u>90,585</u>	4.2%
Expenses:				
Operating expenses:				
Maintenance	25,488	23,028	21,907	10.7%
Toll collection	9,273	9,826	10,332	(5.6)%
Traffic enforcement and communications	3,912	3,487	3,581	12.2%
General and administrative	9,093	9,154	9,159	(0.7)%
Depreciation	35,357	36,294	35,595	(2.6)%
Nonoperating expenses:				
Interest expense	<u>2,784</u>	<u>3,278</u>	<u>3,420</u>	(15.1)%
Total expenses	<u>85,907</u>	<u>85,067</u>	<u>83,994</u>	1.0%
Change in net position	9,925	6,891	6,591	44.0%
Net position, beginning of year	472,883	465,992	459,401	1.5%
Net effect of change in accounting policy	<u>(7,691)</u>	<u>-</u>	<u>-</u>	100.0%
Net position, beginning of year, as restated	<u>465,192</u>	<u>465,992</u>	<u>459,401</u>	(0.2)%
Net position, end of year	<u>\$ 475,117</u>	<u>\$ 472,883</u>	<u>\$ 465,992</u>	0.5%

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In early 2009, the Authority engaged its consulting engineer, HNTB Corporation, to make a recommendation based on its study of the Turnpike's needs for estimated operating expenses, renewal and replacement requirements and essential deferred maintenance and capital needs. Factors prompting this decision included a combination of increasing costs and declining traffic and toll revenues exacerbated by the global economic recession, a growing backlog of essential deferred maintenance and capital needs and the potential for a technical default on the Turnpike Bonds. The technical default could have occurred if the Authority had adopted a fiscal year 2010 budget based on the old toll rate schedule and the debt service coverage requirement under its bond indentures had not been met.

In April 2009, the consulting engineers recommended the Authority implement a ten-year program to address the backlog of essential deferred maintenance and capital needs estimated to cost \$335 million. It was estimated that the Authority would need just over \$20 million of additional revenue for fiscal year 2010 increasing each future fiscal year by approximately 4% per year for inflation and escalation. The additional toll revenue is anticipated to fully fund this program without the issuance of additional debt by the Authority.

Concurrently, the Authority engaged its traffic engineer to study and report on recent transaction and revenue trends and to develop traffic and revenue forecasts under the previous toll rate schedule as well as under various levels of toll rates, and to make a recommendation as to the least increase in toll rates, combined with the largest discount for electronic toll customers, that is estimated to produce enough annual toll revenue to meet the ten year program as outlined by the consulting engineer.

On July 1, 2009, the Authority adopted a new toll and discount rate schedule that became effective August 1, 2009. Cash toll rates were increased by approximately 60% from \$1.25 to \$2.00 per barrier for passenger cars and from \$4.25 to \$6.75 per barrier for 5-axle tractor-trailers. All other classes were increased proportionately. As required by State Code, discounts for all classes of vehicles paying by electronic transponders issued by the Parkways Authority were also adopted. For passenger cars, the discount for paying with an Authority issued E-ZPass[®] transponder is 35%. For commercial trucks, the discount for using any E-ZPass[®] is 13%, and for using an Authority issued E-ZPass[®] is 20%.

Beginning in the fiscal year ended June 30, 2010, toll revenues exceeded projections allowing the Authority to proceed with the plan ahead of schedule. The Authority has utilized over \$182.6 million of capital towards roadway reconstruction, rehabilitation and repair and other capital expenditures since the rate increase.

Operating Expenses

For the year ended June 30, 2015, total operating expenses increased 1.6% or \$1.3 million. Depreciation expense decreased due to the number of infrastructure projects being placed in service. Increases in expenditures related to salt, damage claims and recoveries, guardrail replacement, and other maintenance expenses.

For the year ended June 30, 2014, total expenses increased 1.3% or \$1.1 million. Depreciation expense increased due to the number of infrastructure projects being placed in service as a result of the Authority's 10 year capital improvement plan. Increases in expenditures related to salt, damage claims and recoveries and other maintenance expenses were offset by staffing reductions in the toll collection department.

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Non-operating Revenue and Expense

Interest expense decreased 15.1% in 2015 and 4.2% in 2014 due to the amortization of principal and the stabilization of the Authority's variable interest rate associated with the Series 2008 Toll Revenue Bonds. Net investment revenue has been reduced to historically low levels as a result of the low interest rates on low risk securities such as those held as investments by the Authority.

CONDENSED STATEMENTS OF NET POSITION INFORMATION
(in Thousands)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change '15-'14</u>
Current assets	\$ 61,774	\$ 53,678	\$ 49,513	15.1%
Long-term investments	22,989	26,240	20,401	(12.4)%
Capital assets, net	458,292	458,490	470,889	0.0%
Deferred outflows	<u>7,663</u>	<u>7,603</u>	<u>9,717</u>	0.8%
Total assets plus deferred outflows	<u>\$ 550,718</u>	<u>\$ 546,011</u>	<u>\$ 550,520</u>	0.9%
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</u>				
Current liabilities	\$ 24,704	\$ 20,689	\$ 22,363	19.4%
Long-term revenue bonds	29,939	39,084	47,775	(23.4)%
Other long-term liabilities	14,495	10,039	9,901	44.4%
Deferred inflows	<u>6,463</u>	<u>3,316</u>	<u>4,489</u>	94.9%
Total liabilities plus deferred inflows	<u>75,601</u>	<u>73,128</u>	<u>84,528</u>	3.4%
Net position:				
Net investment in capital assets	422,704	415,153	420,432	1.8%
Restricted	51,094	56,020	43,824	(8.8)%
Unrestricted	<u>1,319</u>	<u>1,710</u>	<u>1,736</u>	(22.9)%
Total net position	<u>475,117</u>	<u>472,883</u>	<u>465,992</u>	0.5%
Total liabilities, deferred inflows and net position	<u>\$ 550,718</u>	<u>\$ 546,011</u>	<u>\$ 550,520</u>	0.9%

Assets

The Authority's cash and investment account balances increased approximately 6%. Ending cash balances are higher due to the timing of the billing and completion of construction contracts. For the year ended June 30, 2015, net capital assets decreased by \$0.2 million as the result of capital improvements of \$35.2 million offset by \$35.4 million of depreciation expense. For the year ended June 30, 2014, net capital assets decreased \$12.4 million with capital improvements of \$23.9 million less depreciation expense of \$36.3 million. See Note 5 of the financial statements for more detailed information on the Authority's capital assets.

Liabilities

For the year ended June 30, 2015, total liabilities and deferred inflows of resources increased \$2.5 million. Current liabilities increased due to the timing of invoices related to construction contracts in progress. Regularly scheduled principal maturities contributed to the decrease in long-term debt. Other long-term liabilities and deferred inflows of resources increased due to the adoption of Governmental Accounting Standards Board Statement No. 68.

The Authority's credit ratings are among the best for similar facilities worldwide. The current agency ratings are as follows:

<u>Agency</u>	<u>Rating</u>
Standard & Poor's	AA-
Moody's Investors Service	Aa3

CAPITAL ASSETS

The Authority's capital assets consist of land, buildings, equipment and infrastructure. Infrastructure assets are typically items that are immovable such as highways and bridges. The Authority's investment in capital assets at June 30, 2015 amounted to approximately \$1.146 billion of gross asset value with accumulated depreciation of approximately \$688 million, leaving a net book value of approximately \$458 million. Capital assets represented 83.2% of the Authority's total assets and deferred outflows of resources at June 30, 2015. Additional information on the Authority's capital assets can be found in the Note 5 to the financial statements.

LONG-TERM DEBT

In 2002, the Authority issued \$44.2 million in Revenue Refunding Bonds which are due in varying installments through May 2019. These Bonds were issued for the express purpose of defeasing \$36.0 million of the Authority's Series 1993 Bonds.

In 2008, the Authority issued \$59.1 million of Variable Rate Demand Revenue Refunding Bonds which are due in varying installments through May 2019. These Bonds were issued for the express purpose of refunding \$59.1 million of the Authority's Series 2003 Bonds.

Additional information on the Authority's long-term liabilities activity can be found in Notes 6, 7, and 8 to the financial statements.

FACTORS IMPACTING FUTURE OPERATIONS

In August, 2012, the Governor established The West Virginia Blue Ribbon Highway Commission to study the condition and needs of the State's transportation system and to develop a long-term strategic plan of action. The report was issued May 2015 and includes descriptions of potential funding options for the maintenance, construction and expansion of the State's roadway system. Specific recommendations were made related to tolls on the West Virginia Turnpike and the long-term sustainability of the Authority.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the West Virginia Parkways Authority, Director of Finance, P. O. Box 1469, Charleston, West Virginia 25325-1469.

WEST VIRGINIA PARKWAYS AUTHORITY

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(A Component Unit of the State of West Virginia)

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

(In Thousands)

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 41,072	\$ 34,763
Short-term investments	13,590	12,260
Accounts receivable	2,857	2,808
Accrued interest receivable	51	54
Inventory	3,345	2,608
Other	859	1,185
Total current assets	<u>61,774</u>	<u>53,678</u>
Noncurrent assets:		
Investments in securities maturing beyond one year	22,989	26,240
Capital assets, net	458,292	458,490
Total noncurrent assets	<u>481,281</u>	<u>484,730</u>
Total assets	<u>543,055</u>	<u>538,408</u>
Deferred outflows of resources:		
Deferred outflows related to net pension obligation	2,053	-
Fair value of hedging derivative instrument	2,264	3,316
Deferred bond refunding loss:		
Series 2002 revenue bonds	1,331	1,702
Series 2008 revenue bonds	2,015	2,585
Total deferred outflows of resources	<u>7,663</u>	<u>7,603</u>
Total assets plus deferred outflows of resources	<u>\$ 550,718</u>	<u>\$ 546,011</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 9,765	\$ 6,707
Accrued interest payable	87	132
Customer deposits	2,239	1,952
Other accrued liabilities	2,898	2,648
Current portion of compensated absences	720	710
Current portion of long-term revenue bonds	8,995	8,540
Total current liabilities	<u>24,704</u>	<u>20,689</u>
Noncurrent liabilities:		
Noncurrent portion of long-term revenue bonds, net of unamortized premiums:		
Series 2002 revenue bonds	10,739	13,984
Series 2008 revenue bonds	19,200	25,100
	<u>29,939</u>	<u>39,084</u>
Noncurrent portion of compensated absences	277	287
Net pension obligation	3,925	-
Accrued post-employment benefits other than pensions	10,293	9,752
Total noncurrent liabilities	<u>44,434</u>	<u>49,123</u>
Total liabilities	<u>69,138</u>	<u>69,812</u>
Deferred inflows of resources:		
Fair value of hedging derivative instrument	2,264	3,316
Deferred inflows related to net pension obligation	4,199	-
Total deferred inflows of resources	<u>6,463</u>	<u>3,316</u>
Total liabilities plus deferred inflows of resources	<u>75,601</u>	<u>73,128</u>
Net position:		
Net investment in capital assets	422,704	415,153
Restricted by trust indenture and tri-party agreement	51,094	56,020
Unrestricted	1,319	1,710
Total net position	<u>475,117</u>	<u>472,883</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 550,718</u>	<u>\$ 546,011</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA PARKWAYS AUTHORITY

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(A Component Unit of the State of West Virginia)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2015 and 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Toll revenues	\$ 88,697	\$ 84,907
Other revenues	6,797	6,749
Total revenues	<u>95,494</u>	<u>91,656</u>
Operating expenses:		
Maintenance	25,488	23,028
Toll collection	9,273	9,826
Traffic enforcement and communications	3,912	3,487
General and administrative	9,093	9,154
Depreciation	35,357	36,294
Total operating expenses	<u>83,123</u>	<u>81,789</u>
Operating income	12,371	9,867
Nonoperating revenues (expenses):		
Interest expense	(2,784)	(3,278)
Net investment revenue	338	302
Nonoperating revenues (expenses), net	<u>(2,446)</u>	<u>(2,976)</u>
Change in net position	9,925	6,891
Net position, beginning of year	472,883	465,992
Net effect of change in accounting policy	(7,691)	-
Net position, beginning of year as restated	<u>465,192</u>	<u>465,992</u>
Net position, end of year	<u>\$ 475,117</u>	<u>\$ 472,883</u>

The accompanying notes are an integral part of these financial statements.

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(A Component Unit of the State of West Virginia)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

(In Thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 95,781	\$ 92,063
Cash paid to employees	(25,897)	(23,116)
Cash paid to suppliers	(20,142)	(25,948)
Net cash provided by operating activities	<u>49,742</u>	<u>42,999</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(35,159)	(23,895)
Debt service for revenue bonds:		
Principal	(8,540)	(7,910)
Interest	(1,993)	(2,488)
Net cash used in capital and related financing activities	<u>(45,692)</u>	<u>(34,293)</u>
Cash flows from investing activities:		
Purchase of investments	(31,575)	(30,948)
Proceeds from sales and maturities of investments	33,496	31,865
Interest from investments	338	302
Net cash provided by investing activities	<u>2,259</u>	<u>1,219</u>
Increase in cash and cash equivalents	6,309	9,925
Cash and cash equivalents, beginning of year	34,763	24,838
Cash and cash equivalents, end of year	<u>\$ 41,072</u>	<u>\$ 34,763</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,371	\$ 9,867
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	35,357	36,294
Net effect of GASB 68	(7,691)	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(47)	(239)
(Increase) decrease in inventory	(737)	277
(Increase) decrease in other current assets	326	(1,034)
(Increase) decrease in deferred outflows of resources	(2,053)	-
Increase (decrease) in accounts payable and other liabilities	3,551	(2,311)
Increase (decrease) in deferred inflows of resources	4,199	-
Increase (decrease) in net pension liability	3,925	-
Increase in accrued post-employment benefits	541	145
Net cash provided by operating activities	<u>\$ 49,742</u>	<u>\$ 42,999</u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014
(In thousands)

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NOTE 1 - FINANCIAL REPORTING ENTITY

Pursuant to Senate Bill 427, the Authority's legal name was changed to the West Virginia Parkways Authority effective July 1, 2010. The West Virginia Parkways Economic Development and Tourism Authority was created as the successor-in-interest to the West Virginia Turnpike Commission (the Turnpike Commission) by an Act (the Act) of the West Virginia Legislature effective June 1, 1989. All the duties, powers, and functions of the Turnpike Commission were transferred to the Authority. Under the Act, the Authority assumed all assets, property, obligations, indebtedness, and other liabilities of the Turnpike Commission and personnel of the Turnpike Commission were transferred to the employment of the Authority. The Authority has the power to enact and amend its operating budget, and receives no appropriations from the State of West Virginia (the State). The State's Governor or his designee serves as chairman of the Authority and the State's Secretary of Transportation serves as a board member. The other seven Authority members are appointed by the Governor with the approval of the Senate. As the State is able to impose its will over the Authority, the Authority is considered a component unit of the State and its financial statements are discretely presented in the comprehensive annual financial report of the State.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles. Generally accepted accounting principles define component units as those entities which are legally separate governmental organizations for which the appointed members of the Authority are financially accountable, or other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading. Since no such organizations exist which meet the above criteria, the Authority has no component units.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority is accounted for as a government entity engaged in business-type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The Authority is included in the State's basic financial statements as a business-type activity using the accrual basis of accounting. Because of the Authority's business-type activities, there may be differences between the amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

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NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2015 and 2014
(In thousands)

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value as determined by published sources and realized and unrealized gains or losses are reported in the statements of revenues, expenses, and changes in net position as a component of investment income.

Allowance for Doubtful Accounts

It is the Authority's policy to provide for future losses on uncollectible accounts based on an evaluation of the underlying accounts, the historical collectability experienced by the Authority on such balances and such other factors which, in the Authority's judgment, require consideration in estimating doubtful accounts.

As of June 30, 2015 and 2014, management believes that all accounts receivable will be collected; therefore, no allowance for doubtful accounts has been booked.

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, and similar items), are reported at historical cost and include interest on funds borrowed to finance construction. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$30,000 for Turnpike activities and \$2,500 for economic development activities and an estimated useful life in excess of one year. Contributed infrastructure assets are stated at the Department of Highways cost basis, adjusted for depreciation occurring from the date the assets were placed in service through the date of transfer of such assets to the Authority. Depreciation is computed using the straight-line method over the following estimated economic useful lives of the assets; buildings (30 years); equipment (5-10 years); and infrastructure (10-50 years).

Deferred Outflow of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees fully vest in all earned but unused vacation and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, the Authority participates in an other post-employment benefit plan (see Note 7).

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Customer Deposits

Customer deposits consist of prepaid deposits made by personal and commercial customers into E-ZPass[®] toll collection accounts held by the Authority.

Bond Discounts, Premiums and Deferred Loss on Advance Refunding

Bond discounts and premiums are being accreted and amortized over the varying terms of the bonds issued. The difference between the reacquisition price and the net carrying amount of refunded debt is reported in the financial statements as a deferred outflow of resources, with the related amortization of such deferral being charged to interest expense using the straight-line method.

Net Position

Net position represents assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Net investment in capital assets consists of all capital assets, plus deferred refunding loss on debt related to the acquisition, construction or improvement of those assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors, or grantors. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are applied first.

Restricted net position consists of amounts restricted by trust indenture and the tri-party agreement that can only be used for maintenance and operation of the Turnpike and for debt service.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflow of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods. Revenues and expenses related to capital and related financing, non-capital financing, or investing activities are not included as operating revenues and expenses. Other items not meeting these definitions are reported as nonoperating revenues and expenses.

Other Revenues

Other revenues primarily consist of concession sales at the travel centers on the West Virginia Turnpike and craft and food sales at the Caperton Center (also known as TAMARACK-*The Best of West Virginia*). The amount of sales reported is net of costs of goods sold. The related general and administrative expenses are included under operating expenses in the statements of revenues, expenses, and changes in net position.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 30, 2015, the date the financial statements were issued.

NOTE 3 - CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF BEGINNING NET POSITION

The Authority changed its method of accounting for the following items in order to comply with accounting principles generally accepted in the United States of America:

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NOTE 3 - CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF BEGINNING NET POSITION (Continued)

GASB 68 – As of July 1, 2014, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. These statements reclassified certain items previously reported as expenses to deferred outflows of resources and now requires the Authority to record the net pension liability and a more comprehensive measure of pension expense.

The Authority determined that it was not practical to restate all periods presented and has recorded a cumulative decrease of \$7,691 to the 2015 beginning net position. The \$7,691 net effect of change in accounting policy is comprised of the net pension liability of \$9,756 less deferred outflows of resources related to pension plan contributions of \$2,065 as of June 30, 2014. The Authority further determined that it was not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2014 and these amounts are not reported.

The net effect of the change in accounting policy on beginning net position is as follows:

Net position at June 30, 2014, as previously stated	\$ 472,883
Net effect of change in accounting policy	<u>(7,691)</u>
Net position at June 30, 2014, restated	<u><u>\$ 465,192</u></u>

NOTE 4 - DEPOSITS AND INVESTMENTS

All of the Authority's cash on hand is held with outside bank accounts, totaling approximately \$41,072 and \$34,763 in 2015 and 2014, respectively.

A reconciliation of the investments disclosed in this Note to the amounts reported in the Statements of Net Position is as follows:

As disclosed in this Note:	
Total deposits with outside banks	\$ 41,072
Total WV Short Term Bond Pool	3,162
Total other investments	<u>33,417</u>
	<u><u>\$ 77,651</u></u>
As reported on the Statement of Net Position:	
Cash and cash equivalents	\$ 41,072
Short-term investments	13,590
Investments in securities maturing beyond one year	<u>22,989</u>
	<u><u>\$ 77,651</u></u>

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NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The cost of investment securities is allocated at June 30, 2015 and 2014, among the following restricted and designated accounts created under the various Trust Indentures or by the adoption of Authority resolution (in thousands):

	<u>2015</u>	<u>June 30</u> <u>2014</u>
Restricted and designated assets:		
Assets restricted by trust indenture and tri-party agreement		
Series 1993, 2002, and 2008 Reserves	\$ 10,808	\$ 10,808
Renewal and replacement	11,682	10,583
Operating and maintenance	4,869	4,740
Series 2002 debt service	214	805
Series 2008 debt service	330	1,324
Reserve revenue, restricted by tri-party agreement	33,866	27,638
Facility improvement	-	1,969
Insurance liability	1,000	1,000
Patron account	<u>2,239</u>	<u>1,952</u>
Total restricted	<u>65,008</u>	<u>60,819</u>
Non toll revenue fund	<u>1,319</u>	<u>1,710</u>
Total restricted and designated assets as allocated by trust indentures	<u>\$ 66,327</u>	<u>\$ 62,529</u>

The assets restricted by the 1993 Trust Indenture, as supplemented, must be used for construction, Turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1993, 2002, and 2008 Reserve Account equal maximum annual debt service for such bonds. The balance in the 1993, 2002, and 2008 Debt Service Accounts are required by the Trust Indentures to have a balance equal to accrued debt service for the current year plus one-twelfth of the debt service which will accrue in the next succeeding fiscal year. The Trust Indentures also require that a reserve be established for Renewal and Replacement that equals the consulting engineer's recommendations for the year. The Operations and Maintenance Account is required by the Trust Indentures to maintain a balance equal to one-eighth of budgeted operating expenses for the fiscal year.

The Insurance Liability account is a self-insured fund that covers the Authority against risk of loss from natural disaster, among other items, and is designated as the Authority's percentage of contribution in the event of a disaster.

The Non Toll Revenue Fund is designated to be used for Non Turnpike activities. This balance is shown as unrestricted net position on the Statements of Net Position.

The Reserve Revenue Account, restricted by the Tri-Party Agreement dated December 1988 among the West Virginia Department of Transportation, the Federal Highway Administration, and the Authority, can only be used for maintenance and operation of the Turnpike and for debt service.

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NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The Facility Improvement account was established in March 2004 by dedicating funds from the superload fees that are collected by the Division of Highways on the Authority's behalf. This fund will be used at the Board's discretion for either facility repairs and improvements or as a sinking fund for the rehabilitation of future facilities.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the Authority's investments are subject to interest rate risk. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the Authority's investment policies limit individual securities in the Authority's investment portfolio to remaining maturities of less than five years and the weighted dollar average maturity is capped at three years. As of June 30, 2015, the Authority had the following investments and maturities (in years):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10+</u>
Government agency bonds	\$ 27,472	\$ 6,471	\$ 20,991	\$ 10	\$ -
Corporate bonds	3,162	3,162	-	-	-
Certificate of deposit – financial institution	5,945	3,957	1,988	-	-
	<u>\$ 36,579</u>	<u>\$ 13,590</u>	<u>\$ 22,979</u>	<u>\$ 10</u>	<u>\$ -</u>

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority's cash deposits with financial institutions were \$41,072 and \$34,763 at June 30, 2015 and 2014, respectively. These deposits, which had a bank balance of \$30,272 and \$36,108, respectively, are insured by the Federal Deposit Insurance Corporation and/or collateralized with securities held in the Authority's name by its agent.

As of June 30, 2015, the Authority had investment balances with the following issuers which were greater than or equal to 5% of the Authority's total investment balance:

<u>Security Type</u>	<u>Issuer</u>	<u>Percentage of Investments</u>
Government agency bonds	Federal Home Loan Bank	24%
	Federal Home Loan Mortgage Corp.	21
	Federal National Mortgage Association	16
	Federal Farm Credit Bank	12

Custodial credit risk - Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the Authority's investments contain nonnegotiable certificates of deposit.

Foreign currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority does not hold any foreign currency or hold any interests in foreign currency.

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NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

BTI DISCLOSURE INFORMATION

The West Virginia Board of Treasury Investment (BTI) has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI’s Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI’s Consolidated Fund. Of the BTI’s Consolidated Fund pools and accounts in which the Authority invests, all are subject to credit risk.

WV Short Term Bond Pool:

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated BBB- or higher by Standard & Poor’s (or its equivalent). Commercial paper must be rated at least A-1 by Standard & Poor’s and P-1 by Moody’s. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor’s and Aaa by Moody’s. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool’s investments.

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NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Security Type	Credit Rating		2015		2014	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset-backed securities	Aaa	AAA	\$ 106,301	13.96%	\$ 91,752	11.89%
	Aaa	AA+	3,822	0.50	-	-
	Aaa	NR	105,366	13.84	76,982	9.97
	NR	AAA	80,008	10.51	71,564	9.27
	Caa3	D *	-	-	300	0.04
	Caa3	NR *	-	-	19	0.00
	Ca	CCC *	-	-	321	0.04
	Ca	D *	-	-	94	0.01
	NR	NR *	-	-	4,024	0.52
Total corporate asset-backed securities			295,497	38.81	245,056	31.74
Corporate bonds and notes	Aaa	AA+	7,689	1.01	7,675	0.99
	Aa1	AA+	5,013	0.66	5,005	0.65
	Aa1	AA	4,039	0.53	-	-
	Aa2	AA+	4,041	0.53	4,034	0.52
	Aa2	AA	6,987	0.92	9,791	1.27
	Aa2	AA-	15,025	1.97	10,055	1.30
	Aa2	A	1,496	0.20	-	-
	Aa2	A-	1,001	0.13	-	-
	Aa3	AA-	16,380	2.15	23,468	3.04
	Aa3	A+	15,787	2.07	10,066	1.30
	A1	AA+	7,097	0.93	13,268	1.72
	A1	AA-	21,552	2.83	5,987	0.78
	A1	A+	24,116	3.17	38,092	4.93
	A1	A	8,078	1.06	5,122	0.66
	A1	A-	-	-	1,099	0.14
	A2	A+	4,617	0.61	9,678	1.25
	A2	A	45,485	5.97	36,840	4.77
	A2	A-	9,485	1.25	12,119	1.57
	A3	A-	43,564	5.72	12,864	1.67
	A3	A	20,699	2.72	16,082	2.08
	A3	BBB+	9,745	1.28	8,862	1.15
	A3	BBB	-	-	1,003	0.13
	Baa1	A	2,001	0.26	-	-
	Baa1	A-	27,754	3.64	12,615	1.63
	Baa1	BBB+	33,751	4.43	25,158	3.26
	Baa1	BBB	12,788	1.68	8,344	1.08
	Baa1	BBB-	500	0.07	1,996	0.26
	Baa2	BBB-	-	-	19,340	2.51
	Baa2	BBB+	3,205	0.42	2,006	0.26
	Baa2	BBB	19,066	2.50	11,325	1.47
	Baa2	BBB-	3,008	0.40	4,448	0.58
	Baa3	BBB+	2,125	0.28	2,200	0.29
	Baa3	BBB	6,265	0.82	7,539	0.98
	Baa3	BBB-	17,460	2.29	16,716	2.17
Total corporate bonds and notes			399,819	52.50	342,797	44.41
U.S. agency bonds	Aaa	AA+	-	-	10,007	1.30
U.S. Treasury notes **	Aaa	AA+	-	-	121,559	15.75
U.S. agency mortgage-backed securities ***	Aaa	AA+	32,198	4.23	38,296	4.96
Money market funds	Aaa	AAAm	34,012	4.46	14,226	1.84
			<u>\$ 761,526</u>	<u>100.00%</u>	<u>\$ 771,941</u>	<u>100.00%</u>

NR = Not Rated

* The securities were not in compliance with BTI Investment Policy at June 30, 2015 and/or 2014. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

** U.S. Treasury issues are explicitly guaranteed by the United States Government and are not subject to credit risk.

*** U.S. agency mortgage-backed securities are explicitly guaranteed by the United States Government and are not subject to credit risk.

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NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2015 and 2014, the Authority ownership of approximately \$3,162 represents 0.4% and ownership of approximately \$3,142 represents 0.4%, respectively, of these amounts held by the BTI.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

Security Type	2015		2014	
	Carrying Value (In Thousands)	Effective Duration (Days)	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	\$ -	-	\$ 121,559	315
Corporate bonds and notes	399,822	495	342,799	483
Corporate asset-backed securities	295,494	357	245,056	397
U.S. agency bonds/notes	-	-	10,007	219
U.S. agency mortgage-backed securities	32,198	267	38,294	291
Money market funds	34,012	1	14,226	1
	<u>\$ 761,526</u>	410	<u>\$ 771,941</u>	407

Other Investment Risks - Other risks of investing include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

NOTE 5 - CAPITAL ASSETS

A summary of capital assets at June 30 follows:

<u>2015</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, non-depreciable:				
Land	\$ 53,247	\$ -	\$ -	\$ 53,247
Capital assets, depreciable:				
Buildings	102,944	293	-	103,237
Equipment	14,323	538	-	14,861
Infrastructure	940,487	34,328	-	974,815
Total capital assets being depreciated	<u>1,057,754</u>	<u>35,159</u>	<u>-</u>	<u>1,092,913</u>
Less accumulated depreciation for:				
Buildings	(69,709)	(3,543)	-	(73,252)
Equipment	(9,602)	(870)	-	(10,472)
Infrastructure	(573,200)	(30,944)	-	(604,144)
Total accumulated depreciation	<u>(652,511)</u>	<u>(35,357)</u>	<u>-</u>	<u>(687,868)</u>
Total depreciable capital assets, net	<u>405,243</u>	<u>(198)</u>	<u>-</u>	<u>405,045</u>
Total capital assets, net	<u>\$ 458,490</u>	<u>\$ (198)</u>	<u>\$ -</u>	<u>\$ 458,292</u>
<u>2014</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, non-depreciable:				
Land	\$ 53,247	\$ -	\$ -	\$ 53,247
Capital assets, depreciable:				
Buildings	101,372	1,572	-	102,944
Equipment	13,846	477	-	14,323
Infrastructure	918,641	21,846	-	940,487
Total capital assets being depreciated	<u>1,033,859</u>	<u>23,895</u>	<u>-</u>	<u>1,057,754</u>
Less accumulated depreciation for:				
Buildings	(66,149)	(3,560)	-	(69,709)
Equipment	(8,568)	(1,034)	-	(9,602)
Infrastructure	(541,500)	(31,700)	-	(573,200)
Total accumulated depreciation	<u>(616,217)</u>	<u>(36,294)</u>	<u>-</u>	<u>(652,511)</u>
Total depreciable capital assets, net	<u>417,642</u>	<u>(12,399)</u>	<u>-</u>	<u>405,243</u>
Total capital assets, net	<u>\$ 470,889</u>	<u>\$ (12,399)</u>	<u>\$ -</u>	<u>\$ 458,490</u>

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NOTE 6 - REVENUE BONDS PAYABLE

Revenue bonds payable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Series 2002 Serial Bonds, issued \$44,205 in February 2002 at 3.50% to 5.25%, due in varying installments from May 2002 through May 2019	\$ 13,295	\$ 16,235
Series 2008 Variable Rate Demand Revenue Refunding Bonds, \$59,100 at variable rates, due in varying installments through April 2019	<u>25,100</u>	<u>30,700</u>
Total revenue bonds payable	38,395	46,935
Add:		
Unamortized premium	539	689
Less:		
Current portion of revenue bonds payable	<u>(8,995)</u>	<u>(8,540)</u>
Total long term revenue bonds payable	29,939	39,084
Less:		
Unamortized deferred loss on advance refunding	<u>(3,346)</u>	<u>(4,287)</u>
	<u>\$ 26,593</u>	<u>\$ 34,797</u>

The Revenue Bonds under the 1993, 2002, 2003, and 2008 Trust Indentures are secured by a pledge of the Authority's toll revenues and all monies deposited into accounts created by the Trust Indentures. Total debt service was \$10,577, \$10,529, and \$11,186 for the years ended June 30, 2015, 2014, and 2013, respectively. Total pledged revenues were approximately \$47,721, \$45,660, and \$47,666, which represents 451.18%, 433.66%, and 426.12% of the total debt service, respectively, for the years ended June 30, 2015, 2014, and 2013.

In 2002, \$44,205 of Revenue Refunding Bonds were issued for the express purpose of defeasing \$36,036 of Series 1993 Bonds. The advance refunding resulted in a \$6,313 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$371 in 2015 and 2014. The Authority completed the advance refunding to reduce its aggregate debt service payments by almost \$3,003 over an 18-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,624.

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NOTE 6 - REVENUE BONDS PAYABLE (Continued)

In July 2008, the Authority issued \$59,100 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding \$59,100 of the Authority's Series 2003 Bonds. This refunding resulted in a \$5,972 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$569 in 2015 and 2014, respectively. The Authority completed the refunding to remove the requirement for bond insurance that was included in the Series 2003 Bonds.

In July 2011, the Authority converted the Series 2008 Variable Rate Demand Revenue Refunding Bonds to a LIBOR Index rate and placed the bonds with a direct purchaser. The supplemental indenture established eight distinct registered bonds in principal amounts identical to the principal maturity schedule prior to the conversion. The Indenture establishes an applicable factor ranging from 67% to 82% of the one-month LIBOR Index with an additional spread ranging from 70 to 110 basis points on each bond. The Interest Rate Swap associated with the Series 2008 Variable Rate Bonds was amended to relate to the new index rate bonds under substantially similar terms.

The Authority has an interest rate swap derivative instrument to synthetically fix, on a current basis, the Series 2008 Refunding Variable Rate Bonds in order to hedge interest rate fluctuations. The key provisions of the instrument are:

Type	Pay-fixed interest rate swap
Objective	Hedge changes in cash flows on the Series 2008 Refunding Variable Rate Bonds
Notional Amount	\$25,100
Effective Date	July 2, 2008
Maturity Date	April 15, 2019
Terms	Pay 4.387%, receive 67% of One Month LIBOR

The fair value of this interest rate swap is estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rate implied by the yield curve correctly anticipates future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of the future net settlement on the swap. At June 30, 2015 and 2014, the decrease in the value of the swap since inception was equal to the market value of the swap creating a deferred inflow of resources that offsets the deferred outflow of resources in the Statements of Net Position.

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NOTE 6 - REVENUE BONDS PAYABLE (Continued)

The fair value balance for the hedging derivative instrument outstanding at June 30, 2015, and the change in fair value of the instrument for the year ended June 30, 2015, as reported in the 2015 financial statements are as follows:

<u>Changes in fair value:</u>	
Increase (decrease)	\$ <u>(1,051)</u>
 <u>Fair value at June 30, 2015</u>	
Amount	\$ <u>2,264</u>

Risks

Credit Risk - The credit ratings of the counterparty to the interest rate swap are A1 from Moody's, A from Standard & Poor's, and A+ from Fitch. The interest rate swap agreement requires certain collateralization if the credit rating of the counterparty falls below specific levels. As of June 30, 2015, no collateralization was required by the interest rate swap agreement.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the interest rate swap.

Basis Risk - The Authority is exposed to basis risk on the fixed interest rate swap because the variable-rate payments received by the Authority on this hedging derivative instrument are based on rates other than the interest rate the Authority pays on the hedged variable-rate debt.

Termination Risk - The interest rate swap agreement provides for certain events that could cause the counterparty or the Authority to terminate the swap. The swap may be terminated by the counterparty or the Authority if the other party fails to make payments when due, there is a material breach of representations and warranties, an event of illegality occurs, and failure to comply with any other provisions of the agreement after a specified notice period.

In addition, if the counterparty fails to maintain ratings of at least Baa3 by Moody's and BBB- by Standard and Poor's, the swap may be terminated by the Authority. If the Authority fails to maintain ratings of at least Baa3 by Moody's and BBB- by Standard and Poor's, the swap may be terminated by the counterparty. The amount of the termination payment is determined by market quotation by obtaining pricing levels from at least three reference market makers.

The Authority has the right to optionally terminate the swap agreement at any time. The termination amount owed by either the Authority or the counterparty may be determined by market quotation. If at the time of termination the swap has a negative fair value, the Authority would owe the counterparty a payment equal to the swap's fair value.

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NOTE 6 - REVENUE BONDS PAYABLE (Continued)

Rollover Risk - The Authority is exposed to rollover risk on the hedging interest rate swap that may be terminated prior to the maturity of the hedged debt.

Swap Payments and Associated Debt - Using rates as of June 30, 2015, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending <u>June 30</u>	<u>Variable-Rate Bonds</u>		Interest Rate <u>Swap, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2016	\$ 5,900	\$ 274	\$ 1,070	\$ 7,244
2017	6,100	201	818	7,119
2018	6,400	141	558	7,099
2019	<u>6,700</u>	<u>74</u>	<u>286</u>	<u>7,060</u>
	<u>\$ 25,100</u>	<u>\$ 690</u>	<u>\$ 2,732</u>	<u>\$ 28,522</u>

Bonds Payable Progression and Maturities

The following schedule summarizes the revenue bonds outstanding as of June 30:

<u>2015</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Amortization</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2002	\$ 16,924	\$ -	\$ (2,940)	\$ (150)	\$ 13,834	\$ 3,095
Series 2008	<u>30,700</u>	<u>-</u>	<u>(5,600)</u>	<u>-</u>	<u>25,100</u>	<u>5,900</u>
	<u>\$ 47,624</u>	<u>\$ -</u>	<u>\$ (8,540)</u>	<u>\$ (150)</u>	<u>\$ 38,934</u>	<u>\$ 8,995</u>
<u>2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Amortization</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2002	\$ 19,785	\$ -	\$ (2,710)	\$ (151)	\$ 16,924	\$ 2,940
Series 2008	<u>35,900</u>	<u>-</u>	<u>(5,200)</u>	<u>-</u>	<u>30,700</u>	<u>5,600</u>
	<u>\$ 55,685</u>	<u>\$ -</u>	<u>\$ (7,910)</u>	<u>\$ (151)</u>	<u>\$ 47,624</u>	<u>\$ 8,540</u>

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NOTE 6 - REVENUE BONDS PAYABLE (Continued)

Debt service requirements for the Revenue Bonds subsequent to June 30, 2015, are as follows:

Year Ending <u>June 30</u>	Principal <u>Maturities</u>	Interest, Including <u>Accretion</u>	<u>Total</u>
2016	\$ 8,995	\$ 1,774	\$ 10,769
2017	9,310	1,367	10,677
2018	9,805	914	10,719
2019	<u>10,285</u>	<u>454</u>	<u>10,739</u>
	<u>\$ 38,395</u>	<u>\$ 4,509</u>	<u>\$ 42,904</u>
Principal outstanding June 30, 2015			\$ 38,395
Add:			
Unamortized premium			539
Less:			
Current portion of revenue bonds payable			<u>(8,995)</u>
Long-term portion			<u>\$ 29,939</u>

The Revenue Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code (the Code). The Code requires that 90% of excess investment earnings on the Bond proceeds be paid to the Internal Revenue Service every five years in order for the Bonds to maintain their tax-exempt status. At June 30, 2015 and 2014, the Authority's estimated arbitrage rebate liability was zero.

NOTE 7 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Authority participates in the West Virginia Other Post-employment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund (RHBT), a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

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NOTE 7 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Participating plan employers are billed per active health policy per month.

The Authority's OPEB liability was \$10,293, \$9,752, and \$9,607 and total OPEB expense was \$1,320, \$989, and \$949 for the years ended June 30, 2015, 2014, and 2013, respectively. The Authority has paid premiums of \$779, \$844, and \$864, which represents approximately 59%, 85%, and 91% of the required contributions, respectively, for the years ended June 30, 2015, 2014, and 2013.

During fiscal year 2012, the West Virginia Legislature passed legislation to provide alternate funding sources for the RHBT OPEB unfunded liability. In addition, the WVPEIA Finance Board imposed limits on the retiree subsidy currently provided for WVPEIA premiums for retirees. Future increases in the subsidy will be limited to no more than 3% per year. These actions have had a material impact on the amounts billed by the RHBT to the Authority as well as an expected material impact on amounts billed in the future, resulting in decreases in the recorded OPEB liability.

NOTE 8 - PENSION PLAN

All full-time Authority employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. PERS also provides delayed retirement, early retirement, death and disability benefits. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, WV 25304-1636 or by calling (304) 558-3570.

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NOTE 8 - PENSION PLAN (Continued)

Benefits Provided

Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80 or greater, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

Contributions

While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 14.0%, 14.5%, and 14.0% for the years ended June 30, 2015, 2014, and 2013, respectively. For periods prior to July 1, 2015, the employee contribution rate was 4.5%. Effective July 1, 2015 the employee contribution increases to 6.0% for new hires. Total contributions to PERS, for the fiscal years ended June 30, 2015, 2014, and 2013, were \$2,053, \$2,065, and \$2,005 from the Authority and \$670, \$641, and \$645 from the covered employees, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Authority reported a liability of \$3,925 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to the measurement date of June 30, 2014. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Authority's proportionate share was 1.06%, which was a decrease of .01% from its proportionate share measured as of June 30, 2013.

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NOTE 8 - PENSION PLAN (Continued)

For the year ended June 30, 2015, the Authority recognized pension expense of \$433. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 4,153
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	46
Authority contributions subsequent to the measurement date	<u>2,053</u>	<u>-</u>
Total	<u>\$ 2,053</u>	<u>\$ 4,199</u>

\$2,053 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	\$ 840
2017	840
2018	840
2019	840
2020	<u>839</u>
Total	<u>\$ 4,199</u>

Actuarial assumptions and methods - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2%
Salary increases	4.25 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on the 1983 Group Annuity Mortality (GAM) for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

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NOTE 8 - PENSION PLAN (Continued)

Long-term expected rates of return - The long-term rates of return on pension plan investments were determined using a building-block method in which estimates of expected real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	15.0%	2.9 – 4.8%
Domestic Equity	27.5%	7.6%
International Equity	27.5%	8.5%
Real Estate	10.0%	6.8%
Private Equity	10.0%	9.9%
Hedge Funds	<u>10.0%</u>	5.0%
Total	100.0%	

Discount rate - The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate - The following table presents the Authority's proportionate share of the net pension liability calculated using the current discount rate of 7.5% as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>Total Net Pension Liability</u>		
	1% Decrease <u>6.5%</u>	Discount Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
PERS	\$ 11,091	3,925	(2,181)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report available at the Consolidated Public Retirement Board's website at www.wvretirement.com.

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NOTE 9 - NONCURRENT LIABILITIES

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

	2015				
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Compensated absences	\$ 997	\$ -	\$ -	\$ 997	\$ 720
OPEB liability	9,752	1,320	(779)	10,293	-
Net pension obligation	<u>-</u>	<u>3,925</u>	<u>-</u>	<u>3,925</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 10,749</u>	<u>\$ 5,245</u>	<u>\$ (779)</u>	<u>\$ 15,215</u>	<u>\$ 720</u>

	2014				
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Compensated absences	\$ 997	\$ -	\$ -	\$ 997	\$ 710
OPEB liability	<u>9,607</u>	<u>989</u>	<u>(844)</u>	<u>9,752</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 10,604</u>	<u>\$ 989</u>	<u>\$ (844)</u>	<u>\$ 10,749</u>	<u>\$ 710</u>

NOTE 10 - LEASES

The Authority leases certain facilities and service areas to third party businesses under operating lease agreements. The cost of the facilities and service areas were \$36,180 and \$36,180 at June 30 2015 and 2014, respectively. Accumulated depreciation on the facilities and service areas was \$25,106 and \$23,879 at June 30, 2015 and 2014, respectively.

The Authority receives both guaranteed payments and contingent payments under the leases. Aggregate rental income from the lease agreements was approximately \$3,096 and \$2,881 for the years ended June 30, 2015 and 2014, respectively. Total contingent rental income received was approximately \$2,329 and \$2,115 for the years ended June 30, 2015 and 2014, respectively. Future minimum rentals are as follows at June 30:

2016	\$ 767
2017	767
2018	767
2019	<u>383</u>
	<u>\$ 2,684</u>

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NOTE 11 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees from a commercial insurer, and the West Virginia Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to PEIA and the commercial insurer, the Authority has transferred its risks related to health coverage for employees and job-related injuries of employees.

The Authority, for an annual premium, obtains insurance coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters through the West Virginia Board of Risk and Insurance Management, a public risk pool entity insuring the State of West Virginia, its component units, local government entities, and eligible not-for-profit organizations. Liability coverage provided to all insured entities under this policy is limited to \$1,000 per occurrence, subject to an annual aggregate limit of coverage of \$22,000. To further reduce its risk of loss, the Authority, for an annual premium paid to a commercial insurer, has obtained an additional liability policy which provides coverage of \$10,000 over and above the coverage provided by the West Virginia Board of Risk and Insurance Management. For the fiscal years ended June 30, 2015, 2014, and 2013, the Authority's insurance coverage has been sufficient to meet all claims and settlements against the Authority.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is a defendant in certain legal proceedings pertaining to matters incidental to routine operations. Based on the current status of these legal proceedings, it is the opinion of Authority management and counsel that the ultimate resolution of these matters will not have a material effect on the Authority's financial position.

Construction Commitments

At June 30, 2015, the Authority had contractual commitments totaling \$29,729 for various Turnpike System improvement projects. Subsequent to June 30, 2015, the Authority entered into additional contractual commitments totaling \$587.

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NOTE 13 - ACCOUNTING PRONOUNCEMENTS

Newly Adopted Statements Issued by the Governmental Accounting Standards Board

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. See Note 3 for a discussion of the effect and additional disclosures at Note 8.

The Governmental Accounting Standards Board has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 15, 2013. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision-usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The adoption of GASB Statement No. 69 had no impact on the June 30, 2015 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective for fiscal years beginning after June 15, 2014. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. See Note 3 for a discussion of the effect and additional disclosures at Note 8.

Recent Statements Issued by the Governmental Accounting Standards Board

The Governmental Accounting Standards Board has also issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Authority has not yet determined the effect that the adoption of GASB Statement No. 72 may have on its financial statements.

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NOTE 13 - ACCOUNTING PRONOUNCEMENTS (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets that accumulate for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The Authority has not yet determined the effect that the adoption of GASB Statement No. 73 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The requirements of this Statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Authority has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Authority has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Authority has not yet determined the effect that the adoption of GASB Statement No. 76 may have on its financial statements.

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NOTE 13 - ACCOUNTING PRONOUNCEMENTS (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The requirements of this Statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Authority has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

WEST VIRGINIA PARKWAYS AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2015

	Public Employees Retirement System									
	Last 10 Fiscal Years*									
	(In Thousands)									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Authority's proportion of the net pension liability (asset) (percentage)	1.06%	1.07%								
Authority's proportionate share of the net pension liability (asset)	\$ 3,925	\$ 9,756								
Authority's covered-employee payroll	\$ 14,664	\$ 14,241								
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	26.77%	68.50%								
Plan fiduciary net position as a percentage of the total pension liability	93.98%	79.70%								

* - The amounts presented for each fiscal year were determined as of June 30th .
This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

WEST VIRGINIA PARKWAYS AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015

Public Employees Retirement System
Last 10 Fiscal Years
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 2,053	\$ 2,065	\$ 2,005	\$ 2,061	\$ 1,787	\$ 1,681	\$ 1,541	\$ 1,594	\$ 1,474	\$ 1,453
Contributions in relation to the contractually required contribution	(2,053)	(2,065)	(2,005)	(2,061)	(1,787)	(1,681)	(1,541)	(1,594)	(1,474)	(1,453)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 14,664	\$ 14,241	\$ 14,321	\$ 14,214	\$ 14,296	\$ 15,282	\$ 14,676	\$ 15,181	\$ 14,038	\$ 13,838
Contributions as a percentage of covered-employee payroll	14.00%	14.50%	14.00%	14.50%	12.50%	11.00%	10.50%	10.50%	10.50%	10.50%

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Members of the
West Virginia Parkways Authority
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of West Virginia Parkways Authority (the Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

Charleston, West Virginia
October 30, 2015

OTHER FINANCIAL INFORMATION

WEST VIRGINIA PARKWAYS AUTHORITY

(A Component Unit of the State of West Virginia)

REVENUE BOND COVERAGE (Unaudited) (1)

Year Ended June 30, 2015

(In Thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Toll revenues	\$ 88,697	\$ 84,907	\$ 83,519	\$ 83,907	\$ 81,960	\$ 79,871	\$ 53,341	\$ 56,563	\$ 58,165	\$ 61,858
Adjustment to toll revenues per Trust Indentures	(72)	(177)	(81)	(333)	480	(683)	200	127	54	(52)
Total revenues	<u>88,625</u>	<u>84,730</u>	<u>83,438</u>	<u>83,574</u>	<u>82,440</u>	<u>79,188</u>	<u>53,541</u>	<u>56,690</u>	<u>58,219</u>	<u>61,806</u>
Operating expenses	83,123	81,789	80,574	80,006	79,496	75,760	71,272	71,340	69,124	70,176
Adjustments to operating expenses per Trust Indentures:										
Depreciation	(35,357)	(36,294)	(35,595)	(32,924)	(32,227)	(31,160)	(31,406)	(31,064)	(30,127)	(29,877)
Renewal and replacement provided for by reserves	(2,476)	(3,139)	(2,789)	(2,888)	(3,280)	(2,617)	(2,963)	(2,714)	(1,366)	(2,700)
Economic development and tourism costs	(4,850)	(5,087)	(5,132)	(6,748)	(5,000)	(5,102)	(5,020)	(5,590)	(6,166)	(6,004)
Other	464	1,801	(1,286)	(2,403)	(3,098)	(3,747)	(975)	(789)	1,141	(117)
Total operating expenses	<u>40,904</u>	<u>39,070</u>	<u>35,772</u>	<u>35,043</u>	<u>35,891</u>	<u>33,134</u>	<u>30,908</u>	<u>31,183</u>	<u>32,606</u>	<u>31,478</u>
Net revenues available for debt service	<u>\$ 47,721</u>	<u>\$ 45,660</u>	<u>\$ 47,666</u>	<u>\$ 48,531</u>	<u>\$ 46,549</u>	<u>\$ 46,054</u>	<u>\$ 22,633</u>	<u>\$ 25,507</u>	<u>\$ 25,613</u>	<u>\$ 30,328</u>
Revenue bond coverage items:										
Total debt service	10,577	10,529	11,186	10,541	10,515	10,670	12,218	11,852	10,876	10,801
Renewal and replacement reserve requirement										
per recommendation of consulting engineer	11,187	11,163	10,280	11,128	8,673	8,743	10,077	9,073	4,352	4,331
Total debt service and renewal and replacement	<u>\$ 21,764</u>	<u>\$ 21,692</u>	<u>\$ 21,466</u>	<u>\$ 21,669</u>	<u>\$ 19,188</u>	<u>\$ 19,413</u>	<u>\$ 22,295</u>	<u>\$ 20,925</u>	<u>\$ 15,228</u>	<u>\$ 15,132</u>
Coverage percentages:										
Total debt service (150% required since 2002, 125% previously required) (1)	<u>451.18%</u>	<u>433.66%</u>	<u>426.12%</u>	<u>460.40%</u>	<u>442.69%</u>	<u>431.62%</u>	<u>185.24%</u>	<u>215.21%</u>	<u>235.50%</u>	<u>280.79%</u>
Total debt service and renewal and replacement per recommendation of consulting engineer (100% required)	<u>219.27%</u>	<u>210.49%</u>	<u>222.05%</u>	<u>223.97%</u>	<u>242.59%</u>	<u>237.23%</u>	<u>101.52%</u>	<u>121.90%</u>	<u>168.20%</u>	<u>200.42%</u>

(1) On March 11, 1993, \$111,245,000 of Series 1989 Revenue Bonds were refunded with 1993 Series Revenue Bonds issued under a Trust Indenture dated February 15, 1993. On February 1, 2002, \$36,036,000 of the Series 1993 Revenue bonds were refunded with the 2002 Series Revenue Bonds issued under a Trust Indenture dated February 1, 2002. On February 18, 2003, \$61,280,000 of the Series 1993 Revenue bonds were refunded with the Series 2003 Variable Rate Demand Refunding Bonds issued under a Trust Indenture dated February 18, 2003. During fiscal year 2009, the Series 2003 Bonds were refunded by the Series 2008 Variable Rate Demand Refunding Bonds issued under a Supplemental Trust Indenture dated July 2, 2008. The revenue bond coverage requirements increased to 150% under the 2003 trust indenture and remain under the 2008 trust indenture at 150%. The above presentation for each of the ten years ended June 30, 2015, relates only to debt service requirements under the 1993, 2002, 2003, and 2008 Trust Indentures. Under the terms of these trust indentures, revenues available for debt service are comprised of collected toll revenues less operating expenses, exclusive of depreciation, other costs funded by bond proceeds or designated established reserves and accruals, and further reduced by capital expenditures funded by amounts other than bond proceeds.